

Message Text

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ACTION EB-03

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USINT ALGIERS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 8917

LIMDIS

KUWAIT PASS DOHA

E.O. 11652: GDS

TAGS: ENRG, OPEC, IR

SUBJ: DISCUSSION WITH NIOC OFFICIAL ON OIL PRICES

REF: TEHRAN 8767

1. SUMMARY: ECONCOUNS AND PETOFF CALLED OCT 17 ON NIOC'S DR PARVIZ MINA TO DISCUSS OIL PRICE ISSUES. AS EXPECTED, MINA (PROTECT FULLY) EXPRESSED INDIGNATION AT RECENT ARTICLES IN TIME, NEWSWEEK AND FORTUNE AND ATTACKED SAG MINPET YAMANI AS HYPOCRITE AND LIAR. YAMANI, SAID MINA, CONTINUES TO ACCUSE IRAN AND OTHER
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NON-ARAB OPEC COUNTRIES OF PUSHING PRICES UP, EVEN THOUGH HE KNOWS

IRAN HAS FOUGHT HARD AGAINST EVEN MORE RADICAL INCREASES PROPOSED BY MOST OTHER ARAB PRODUCERS. EMBOFF ACKNOWLEDGED IT IS UNFAIR FOR MEDIA TO TREAT OIL PRICE ISSUES LARGELY AS FACE-OFF BETWEEN ARCH-VILLAIN IRAN AND ANGELIC YAMANI, BUT NOTED THAT IN ANY CASE, INTERNATIONAL FINANCIAL WORLD GROWING GLOOMIES AND MANY OIL-CONSUMING NATIONS ARE IN DEEP DIFFICULTIES. EMBOFFS ARGUED (A) THAT CONSUMER NATIONS, MANY OF WHOM ARE EXPERIENCING NEGATIVE GROWTH AND HUGE PAYMENTS DEFICITS, NEED TIME TO RECOVER AND ADJUST (B) THAT OIL PRICES, AS MEASURED BY PRODUCER GOVT TAKE, HAVE BEEN PUSHED UP ALMOST \$3 ABOVE \$7 LEVEL SHAH ANNOUNCED IN DECEMBER -- FAR ABOVE RATE OF WORLD INFLATION (C) THAT OIL PRICES HAD RISEN FAR MORE IN ANY TIME FRAME THAN THOSE OF ANY OTHER CATEGORY OF COMMODITIES. (EMBOFFS HANDED MINA COPY OF EXPORT INDICES FROM UN MONTHLY BULLETIN OF STATISTICS SEPT 1974) (D) THAT CONSUMERS FEEL THAT "INDEXATION" FROM PRESENT PRICE LEVELS WOULD PERPETUATE, IN FACT IN ABSOLUTE TERMS, EXACERBATE, THE PRESENT FINANCIAL IMBALANCE (E) THAT OPEC ARGUMENTS ABOUT OIL COMPANY PROFITS AND CONSUMER GOVERNMENT TAXES ARE NOT RELEVANT TO THE CENTRAL BALANCE OF PAYMENTS PROBLEM AND (F) THAT "RECYCLING" ON THE SCALE IMPLIED BY PRESENT IMBALANCES MAY PROVE IMPOSSIBLE. MINA LISTENED THOUGHTFULLY THROUGHOUT, AND SEEMED PARTICULARLY IMPRESSED WITH UN EXPORT INDICES. HE COMMENTED THAT HE EXPECTS OPEC TO ADOPT "SINGLE PRICE" SCHEME BEFORE END OF YEAR AND SAID "WE WILL BE WORKING HARD ON THIS AT VIENNA NEXT WEEK". EMBOFFS COMMENTED THAT SINGLE PRICE IN ITSELF PREFERABLE TO EXISTING CONFUSION, BUT SAID \$9.845 LEVEL FOR ARABIAN LIGHT IS EXTREMELY HIGH. EMBOFFS EXPRESSED HOPE OPEC WILL START OFF AT LOWER LEVEL, AND BEGIN GIVING CONSUMERS AN OPPORTUNITY TO ADJUST. END SUMMARY.

2. ECONCOUNS AND PETOFF ON OCT 17 CALLED ON DR PARVIZ MINA, ASST DIRECTOR OF TECHNICAL AND INTERNATIONAL AFFAIRS OF NIOC, TO DISCUSS OIL PRICE ISSUE. REASONS FOR TALKING WITH MINA ON THIS ISSUE WERE (A) THAT NEW PETROLEUM ACT HAS GIVEN NIOC OIL PRICE AUTHORITY THAT HAD BEEN VESTED IN NOW DEFUNCT PETROLEUM DEPT OF OLD MINFINANCE (B) THAT IRAN'S NEW OPEC GOVERNOR, HASSAN IZADI, IS DIRECT SUBORDINATE OF DR MINA, AND (C) THAT DR MINA HIMSELF, ACCORDING TO CONFIDENTIAL INFO FROM NIOC SOURCE, WILL BE ATTENDING OCT 23 MEETING OF OPEC ECONOMIC COMMISSION IN VIENNA. SAME SOURCE HAS INDICATED GOI IS SENDING UNPRECEDENTLY HIGH-LEVEL DELEGATION TO THIS MEETING, PERHAPS INCLUDING GOI OPEC REP AMOUZEGAR. (NOTE: CONFIDENTIAL

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WELL-PLACED NIOC SOURCES AND OIL COMPANY REPS HERE INDICATE AMOUZEGAR HAS SUCCESSFULLY FOUGHT OFF EFFORTS BY MINECONFINANCE ANSARY TO GET SHARE OF OIL PRICE ACTION, AND UNDER SHAH, IS NOW IN COMPLETE COMMAND OF OPEC AND OIL PRICE MATTERS. AMOUZEGAR NOW APPEARS TO BE USING NIOC OFFICIALS, INCLUDING MINA, AS "STAFF" ON OPEC MATTERS. IZADI, IN PARTICULAR, FORMERLY CLOSELY ASSOCIATED WITH REZA FALLAH, NOW, IS CONSIDERED AMOUZEGAR'S MAN IN NIOC).

3. ECONCOUNS OPENED BY STATING THAT INFORMED USG OFFICIALS RECOGNIZED THAT FOR SOME TIME WE HAVE BEEN MOVING INTO ERA IN WHICH OPEC NATIONS ARE ACQUIRING VASTLY INCREASED REVENUES AND ECONOMIC POWER AND THAT SUCH OFFICIALS ACCEPT THIS CHANGE AS IRREVERSIBLE FACT WHICH IN ITSELF IS NOT A CAUSE OF ANXIETY. ECONCOUNS REFERRED TO SECRETARY KISSINGER'S REMARK IN PRESS CONFERENCE AFTER WASHINGTON ENERGY CONFERENCE THAT "THERE'S A GENERAL AGREEMENT THAT PRICES FOR OIL WERE TOO LOW PRIOR TO SEPT 1973", AND NOTED THAT WORLD WOULD PERHAPS BE IN BETTER SHAPE NOW HAD OIL PRICES BEGUN TO INCREASE SOME YEARS AGO AND INCREASED GRADUALLY, WITHOUT YET HAVING REACHED PRESENT LEVELS. NEVERTHELESS, A SERIOUS PROBLEM EXISTS: EACH DAY IT SEEMS CLEARER THAT MAGNITUDE AND RAPIDITY OF OIL PRICE INCREASES, GIVEN WEIGHT OF OIL IN WORLD TRADE, HAVE CREATED A SITUATION THAT MAY OVERWHELM US ALL BEFORE WE CAN LEARN HOW TO DEAL WITH IT. BALANCE OF PAYMENT PROBLEMS EXPERIENCED BY OIL CONSUMERS, LDC'S AND WEST ALIKE, ARE QUITE SEVERE. IN VIEW OF IRANIAN ANGER AT RECENT FORTUNE, TIME AND NEWSWEEK ARTICLES, ECONCOUNS ADDED THAT EMBASSY AWARE OF MODERATING ROLE BETWEEN SAG AND MILITANTS THAT IRAN HAS PLAYED IN OPEC MEETINGS OVER LAST SEVERAL MONTHS AND HAS REPORTED THIS TO WASHINGTON. THUS, HE SAID, EMBASSY REALIZED POPULAR PRESS ACCOUNTS OF VILLAIN IRAN VERSUS CHERUBIC SAG IS SIMPLISTIC AND DISTORTIVE PRESENTATION OF OIL PRICE ISSUE.

4. AT THIS, MINA EXPRESSED HIS DISMAY OVER US MEDIA'S CALCULATED ANTI-IRANIAN PROPAGANDA AND FOR BEING TAKEN IN BY YAMANI. HE WAS PARTICULARLY ANGRY AT RECENT YAMANI INTERVIEW IN A FRENCH PAPER IN WHICH, HE SAID, YAMANI ACCUSED IRAN, NIGERIA, AND VENEZUELA OF BRINGING ABOUT OPEC'S FOURTH QUARTER PRICE INCREASE. YAMANI, HE SAID, KNOWS PERFECTLY WELL THAT IRAN FOUGHT ALMOST SINGLEHANDEDLY AGAINST OTHER OPEC MEMBERS, MAINLY ARABS, WHO WANTED 14 PERCENT INCREASE RATHER THAN THE 3.5 PERCENT INCREASE, WHICH WAS A COMMITMENT FORCED BY IRAN. IRAN, HE SAID, HAS DIFFICULTY BELIEVING THAT A RESPONSIBLE OPEC MINISTER WILL TELL SUCH OUT-AND-OUT LIES.

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YAMANI, MINA CLAIMED, HAS NEVER REALLY WANTED TO LOWER PRICES. MINA SHOWED EMBOFF'S PIW REPORT THAT YAMANI DEMANDING COMPANIES PAY OPEC'S JUNE AND SEPTEMBER INCREASES. FURTHER, SAID MINA, WHEN YAMANI TAKES 100 PERCENT OF ARAMCO, HE CANNOT DEFEND BEFORE ARAB OPINION OR WITHIN HIS OWN GOVERNMENT AN ARRANGEMENT WHEREBY SAG GETS LESS FOR OWNING 100 PERCENT OF CRUDE THAN THE WEIGHTED AVERAGE TAKE IMPLIED BY 60/40 PARTICIPATION AND OPEC'S JUNE AND SEPTEMBER DECISIONS. THUS, DR MINA REASONED, EVEN YAMANI'S PLEA FOR A \$2 REDUCTION IN POSTED PRICE HAD BEEN A TACTIC DESIGNED TO IMPROVE THE COSMETICS OF HIS 100 PERCENT TAKEOVER. SAG'S WEIGHTED AVERAGE TAKE IN THE FIRST SEMESTER OF 1974, AS IMPLIED BY 60/40 PARTICIPATION AND THE FORMER SYSTEM OF FISCALIZATION, SHOULD HAVE BEEN AROUND \$9.32 PER BARREL. GOVERNMENT MARKET/BYBACK PRICE, UNDER THE SYSTEM THEN PREVAILING, WOULD HAVE BEEN \$10.835 PER BARREL, BUT IF POSTED PRICE HAD BEEN LOWERED BY \$2, THE GOVERNMENT

PRICE, AT 93 PERCENT OF POSTED PRICE, WOULD HAVE BEEN AROUND \$9
AND YAMANI COULD HAVE TAKEN 100 PERCENT OF ARAMCO, AGREEING TO SELL
TO FORMER PARTNERS AT THIS GOVERNMENT MARKET PRICE. HE THEN COULD
HAVE PRESENTED AGREEMENT TO SAUDI AND ARAB OPINION AS A TRIUMPH.
IN ANY CASE, SAID MINA, YAMANI HAS NO INTENTION OF DOING ANYTHING
THAT IS NOT BACKED BY A UNANIMOUS OPEC DECISION.

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ACTION EB-03

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R 221330Z OCT 74

FM AMEMBASSY TEHRAN

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INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JARAKARTA

AMEMBASSY JIDDA

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C O N F I D E N T I A L SECTION 2 OF 2 TEHRAN 8917

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REMEMBER TOO, HE ADDED, THAT IT WAS SAG THAT GEGAN THE TRADITION OF
93 PERCENT OF POSTED PRICE AS THE GOVERNMENT SALES PRICE. EMBOFFS
INQUIRED IF, YAMANI NOTWITHSTANDING, KING FAISAL DID NOT IN FACT

FAVOR LOWER PRICES AND HAD NOT FAISAL BEEN TAKING A MODERATE LINE GENERALLY ON OIL PRICES, MINA WAS ESSENTIALLY NON-COMMITAL IN RESPONSE.

5. EMBOFFS EXPRESSED VIEW THAT POPULAR MEDIA ACCOUNTS ARE SIMPLY LAGGING BEHIND ON UNDERSTANDING THE SITUATION, WHEREAS OIL COMPANIES AND INFORMED CONSUMER GOVT OFFICIALS HAVE MORE COMPLEX APPRECIATION, AS REFLECTED IN THE OIL TRADE PRESS. EMBOFFS DOUBTED
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PRESS ACCOUNTS WILL DO ANY LASTING HARM, EXPRESSED OPINION THAT SAG INDEED SEES PRESENT SITUATION AS DANGEROUS AND WOULD LIKE OIL PRICES TO COME DOWN, BUT AGREED SAG WOULD FIND IT DIFFICULT TO DO ANYTHING WITHOUT UNANIMOUS OPEC BACKING. EMBOFFS NOTED THERE IS A SCHOOL OF THOUGHT THAT BELIEVES YAMANI IS DEMANDING FULL OPEC INCREASES FROM COMPANIES TO MAKE 60/40 ARRANGEMENT INTOLERABLE AND THUS MOVE THEM FASTER TOWARD 100 PERCENT TAKEOVER.

6. REGARDLESS OF QUESTIONS OF THE RELATIVE RESPONSIBILITY FOR PRICE INCREASES, EMBOFFS NOTED, WE ARE IN SITUATION IN WHICH INTERNATIONAL FINANCIAL PICTURE HAS DARKENED THROUGHOUT THE YEAR. MANY CONSUMER NATIONS ARE IN DEEP DIFFICULTIES AND DESPERATELY NEED TIME TO ADJUST AND RECOVER. SOME, INCLUDING US, ARE EXPERIENCING NOT MERELY REDUCED BUT NEGATIVE ECONOMIC GROWTH. (EMBOFF MENTIONED CONVERSATION WITH ANOTHER NIOC OFFICIAL, WHO HAD SIAD DEVELOPED COUNTRIES OUGHT TO ACCEPT REDUCED GORWTH RATES. EMOBFF ASKED THIS OFFICIAL WHAT HIS POSITION WOULD BE IF DEVELOPED COUNTRIES EXPERIENCED NEGATIVE GROWTH, TO WHICH OFFICIAL REPLIED "THEN WE MIGHT HAVE TO RETINK OUR POSITION.")

7. EMBOFFS NOTED THAT THROUGH CHANGES IN PARTICIPATION AGREEMENTS AND OPEC DECISIONS PRICE OF OIL APPARENTLY HAS INCREASED BY ALMOST THREE DOLLARS OVER \$7 LEVEL ANNOUNCED BY SHAH IN DECMEBER PRESS CONFERENCE. THIS, SAID EMBOFFS, IS AN INCREASE MUCH GREATER THAN WORLD INFLATION THIS YEAR. EMBOFFS HANDED MINA COPY OF EXPORT PRICE INDICES FROM UN MONTHLY BULLETIN OF STATISTICS (SEPT 1974) AND TOLD MINA THAT ALL SUCH INDICES INDICATED THAT FOR ANY TIME FRAME ONE CHOSE THAT INCLUDED THE PRESENT, OIL PRICES HAVE INCREASED MUCH MORE RAPIDLY THAN THOSE OF ANY OTHER CATEGORY OF COMMODITIES. GIVEN THAT OIL PRICES ARE ALREADY WELL AHEAD OF INFLATION, EMBOFFS NOTED, DR MINA COULD SEE WHY CONSUMERS WERE REACTING WARILY TO IDEA OF INDEXATION. CONSUMER NATIONS FEEL, WITH REASON, THAT INDEXATION BEGINNING FROM THE EXISTING PRICE LEVELS WOULD PERPETUATE, AND IN ABSOLUTE TERMS PERHAPS WORSEN, THE EXISTING IMBALANCE.

8. MINA CITED USUAL FIGURES INDICATING CONTRIBUTION OF OIL PRICES TO GENERAL WORLD INFLATION IS SMALL. EMBOFFS EXPRESSED SKEPTICISM ABOUT THESE FIGURES, AND NOTED THAT CONSUMERS PERHAPS SHOULD NOT OVEREMPHASIZE THIS ISSUE. THE OBVIOUS DIFFICULTY IS THE IM-

BALANCE OF PAYMENTS WHICH IN VIEW OF MAY ECONOMISTS COULD RESULT
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IN AN ACCUMULATION OF DEBTS TO OIL PRODUCERS THAT REST OF WORLD
WILL NEVER BE ABLE TO REPAY. (EMBOFFS DESCRIBED PROBLEM OF
INDIAN RUPEES FORMERLY OWNED BY USG AS EXAMPLE OF WHAT WAS MEANT
BY AN UNPAYABLE DEBT.) RECYCLING, CONCLUDED EMBOFFS, PROBABLY CAN-
NOT BE A CURE-ALL, EVEN UNDER BEST OF CIRCUMSTANCES. PROBLEM, TOO,
IS THAT OPEC SURPLUS, AS PROJECTED OVER NEXT SEVERAL YEARS BY
INTERNATIONAL ORGANIZATIONS, COULD NOT COME ABOUT UNLESS ALL
NATIONS ARE ABLE TO BORROW THE AMOUNTS THEY NEED TO MAINTAIN
SUFFICIENT ECONOMIC GROWTH FOR POLITICAL STABILITY. MINA ACKNOW-
LEDGED SUCH PROBLEMS MAY PROVE SERIOUS, BUT SAID "IRAN IS NOT PART
OF THIS PROBLEM. OVER NEXT THREE TO FIVE YEARS, WE WILL SPEND MOST
OF INCOME, PARTICULARLY WHEN WE PAY OUT BILLIONS OF DOLLARS FOR
NUCLEAR REACTORS WE PLAN TO BUY." EMBOFFS LOOKED SKEPTICAL AND
RECALLED THAT AT \$9.845 AVERAGE COST OF MARKER CRUDE, WE WERE
TALKING ABOUT \$22 OR \$23 BILLION DOLLARS IN ANNUAL OIL REVENUES
FOR IRAN, NOT THE \$20 BILLION CITED BY MINA, WHEREAS A DRAMATIC
INCREASE IN IMPORTS WILL BRING IRAN'S IMPORT BILL TO ONLY \$10-11
BILLION THIS YEAR. NEVERTHELESS, EMBOFFS ADMITTED, PART OF PROBLEM
IS DIFFERING SITUATIONS OF OPEC MEMBERS, SUCH AS NIGERIA AND
INDONESIA ON ONE EXTREME AND SAUDI ARABIA, KUWAIT AND ABU DHABI ON
OTHER.

9. FINALLY, EMBOFFS OBSERVED, OPEC ARGUMENTS ABOUT OIL COMPANY
PROFITS AND CONSUMER GOVERNMENT TAXES ARE NOT TO THE POINT. OIL
COMPANY PROFITS ARE NOT AN ITEM IN OVERALL FLOW OF MONEY BETWEEN
CONSUMERS AND PRODUCERS. IT MIGHT BE SAID THAT THEY TEND IN FIRST
INSTANCE TO FAVOR BALANCE OF PAYMENTS OF CERTAIN CONSUMERS (US,
UK, NETHERLANDS) AT EXPENSE OF OTHERS. IN ANY CASE THERE IS NO WAY
PRODUCERS CAN CUT INTO OIL COMPANY PROFITS WITHOUT WORSENING
GLOBAL IMBALANCE BETWEEN CONSUMERS AND PRODUCERS. (DR MINA AGREED
WITH THIS POINT.) FURTHER, SAID EMBOFFS, CONSUMER GOVT TAXES
(WHICH BY THE WAY ARE VERY SMALL ON PRODUCTS OTHER THAN GASOLINE)
ARE ITEM IN RETAIL PRICE THAT DO NOT, OF COURSE, REPRESENT BALANCE
OF PAYMENTS DRAIN. NEED TO CONSERVE PETROLEUM (ON WHICH WE AGREE
WITH OPEC) MAY IMPLY HIGHER RETAIL PRICES, WHEREAS HISTORICALLY,
OPEC HAS ARGUED PRODUCERS "DESERVE" BIGGER PART OF UTIMATE RETAIL
TAKE. THIS ARGUMENT SAID EMBOFFS, WILL NO LONGER DO: IT IS NO GOOD
TO US TO ENCOURAGE CONSERVATION THROUGH PRICE MECHANISM IF OLD
OPEC ARGUMENT PREVAILS AND OUR BALANCE OF PAYMENTS IS WORSENERD IN
SPITE OF OUR EFFORTS TO CONSERVE.

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10. THROUGHOUT EMBOFF'S PRESENTATION, MINA LISTENED THOUGHTFULLY BUT NONCOMMITTALLY. TONE OF ENTIRE CONVERSATION WAS MOST CORDIAL. IN RESPONSE TO ECONCOUNSELOR'S QUESTION, MINA DESCRIBED "SINGLE PRICE FOR OIL" PROPOSAL ALMOST EXACTLY AS REPORTED IN REFTEL, BUT PLACED EMPHASIS ON DIFFICULTY OF SITUATION FOR INDEPENDENT OIL COMPANIES, WHO CANNOT AFFORD TO BUY GOVERNMENT OIL RATHER THAN ON GOVERNMENTS' DIFFICULTIES IN SELLING IT AT HIGH GOVERNMENT MARKET PRICE. MINA EXPRESSED CONFIDENCE THAT OPEC WILL ADOPT SINGLE PRICE SYSTEM BEFORE END OF YEAR, AND SAID "WE WILL BE WORKING HARD ON THIS NEXT WEEK". ASKED WHETHER HE FORESAW ANY POSSIBILITY OF A DECLINE IN OIL PRICES AS A RESULT OF THE DEC OPEC MEETING, EITHER WITH OR WITHOUT INDEXATION, MINA REPLIED, "NONE WHATSOEVER." EMB-OFFS COMMENTED THAT WHILE SINGLE PRICE SEEMS PREFERABLE TO EXISTING CHAOS AND UNCERTAINTY, THE \$9.845 LEVEL FOR MARKER CRUDE IS EXTREMELY HIGH. EMBOFFS ACKNOWLEDGED THAT IN VIEW OF OPEC'S POLICY OF UNANIMOUS DECISIONS, ALL MEMBERS MUST BE WON OVER TO MODERATION, NOT JUST ONE OR TWO. THEY EXPRESSED HOPE OPEC WILL NOT ADOPT SO HIGH A SINGLE PRICE FOR MARKER CRUDE, BUT WILL BEGIN TO THINK IN TERMS OF ALLOWING CONSUMERS A RESPITE.

HELMS

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